# Three Letters

on

# The Price of Gold

by

David Ricardo

A REPRINT OF ECONOMIC TRACTS

Edited by

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Associate Professor of Political Economy

Johns Hopkins University

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1809

The Lord Baltimore Press
THE FRIEDENWALD COMPANY
BALTIMORE, MD., U. S. A.

# INTRODUCTION

The three letters on 'The Price of Gold,' here for the first time reprinted from their original form in *The Morning Chronicle* (London) of August-November, 1809, may be said to mark the beginning of David Ricardo's career as an economist and publicist. The circumstances under which they were written and published are described in the memoir of Ricardo contained in the "Annual Biography and Obituary for 1824" (London, 1824):[1]

> "The immense transactions which he [Ricardo] had with the Bank of England, in the course of business, tallying with the train of study on which he was then engaged, led Mr. Ricardo to reflect upon the subject of the currency, to endeavour to account for the difference which existed between the value of the coin and the Bank notes, and to ascertain from what cause the depreciation of the latter arose. This occupied much of his attention at the time, and it formed a frequent theme of conversation with those among his acquaintance who were inclined to enter upon it. He was induced to put his thoughts upon paper, without the remotest view of the time to publication.
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> The late Mr. Perry, proprietor of the Morning Chronicle, was one of the few friends to whom Mr. Ricardo showed his manuscript. Mr. Perry urged him to allow it to be published in the Morning Chronicle; to which, not without some reluctance, Mr. Ricardo consented; and it was inserted in the shape of letters under the signature of R., the first of which appeared on the 6th day of September, 1810. These letters produced various answers; among the rest was one signed by "A Friend to Bank Notes, &c.," whom Mr. Ricardo soon after found to be an intelligent friend of his own; and who, from being a warm opponent of the doctrines of Mr. Ricardo, was soon transformed into a complete convert to them.
>
> The interest which the subject excited was a motive with him for enlarging upon it, and publishing his views very shortly after, in the form of a pamphlet, entitled "On the Depreciation of the Currency.""

The foregoing account was largely drawn upon by McCulloch in the preparation of the "Life and Writings of Mr Ricardo," prefixed to his edition of "The Works of David Ricardo" (London, 1846), and reprinted on several occasions thereafter. Even

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[1] This sketch of Ricardo, McCulloch tells us ("The Works of David Ricardo," xvii), is "supposed to be written by one of his brothers." The only intimation of authorship afforded by the work itself is the prefatory statement of its editor that the biographies of Ricardo and of certain others are "from much more able pens than his own."

certain inaccuracies were incorporated. Thus the date of publication of the first letter was given by McCulloch as September 6, 1809—a palpable revision of the corresponding "Annual Obituary" date, September 6, 1810; whereas bare reference to the *Chronicle* file would have supplied the correct issue, viz., August 29, 1809. Here, as elsewhere, McCulloch was neither an accurate nor a scrupulous editor, and it is doubtful whether he ever saw the letters in their original printed form, and almost certain that he did not use them in preparing the account of Ricardo's life or in editing his works. McCulloch's interest centred in Ricardo's pamphlet on "The High Price of Bullion, a Proof of the Depreciation of Bank Notes" (London, 1810). It was not until many years later when casting about for biographical material that his attention necessarily reverted to the *Chronicle* letters, and then his moderate requirements, literary and critical, were amply satisfied by the statements in the "Annual Obituary" memoir.

An important consequence of McCulloch's editorial neglect has been a general acquiescence in the view that the *Chronicle* letters were planned and published in serial form, and that the pamphlet on the 'High Price of Bullion' was not merely a free version but an essential reproduction of the statements therein contained. This is the impression left by the "Annual Obituary" memoir; it takes more definite form in McCulloch's biographical sketch, while in other of McCulloch's writings it is stated in the terms which frequent citation has rendered familiar to all students of Ricardo. Thus in McCulloch's "Literature of Political Economy" (London, 1845), Ricardo's "High Price of Bullion" bears the following annotation (pp. 172-173):

> "Among those whose attention was directed by these circumstances to the state of the currency, the most able and conspicuous was Mr. Ricardo, who then made his *début* as an author, by publishing a series of letters on the subject in the Morning Chronicle, the first of which appeared on the 6th of September, 1809. Having subsequently collected the Letters, and given them a more systematic form, Mr. Ricardo published them in a pamphlet, which appeared early next year, entitled 'The High Price of Bullion a Proof of the Depreciation of Bank-Notes.'" [1]

An examination of the letters here made accessible will correct the somewhat misleading impression of McCulloch's phrases.

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[1] A correct impression of the relation of the *Chronicle* letters to the "High Price of Bullion," as conceived by Ricardo himself, can be best obtained from the "Introduction" to the tract. This appeared in the early editions of the pamphlet, but was omitted from the fourth—the one included by McCulloch in his edition of the "Works." It is accordingly here appended (*v.* note 1, p. 27).

The series, it will be seen, is properly described as consisting of one communication and two controversial letters. In the summer of 1809, probably under the circumstances indicated in the "Annual Obituary" memoir, Ricardo was induced to make public certain views on the Bank Restriction. His contribution appeared in *The Morning Chronicle* of August 29, as a brief paper or essay, without signature, under the caption 'The Price of Gold'—a definite communication with no intimation of sequel.

The essay was, however, sharply assailed, among other less serious critics, by one writer under the pseudonym "A Friend to Bank Notes but no Bank Director," whose substantial manner and unconvincing argument invited reply. Accordingly, on September 20, appeared the second of the three letters here presented, formally addressed "To the Editor of the Morning Chronicle," and bearing the signature "R." Further discussion resulted, including a second letter from "A Friend to Bank Notes but no Bank Director," if anything more vigorous in tone and more vulnerable in content than the first. An effective rejoinder by Ricardo, the last of the three letters now reprinted, appeared in the *Chronicle* of November 23, evidently marking the exhaustion of editorial patience, for with it the controversy terminated, so far at least as the columns of the newspaper were concerned.

The publication of the correspondence of Ricardo with Hutches Trower and the examination of the Trower MSS. in 1899 have made it certain that "A Friend to Bank Notes but no Bank Director" of the *Chronicle* controversy was Hutches Trower himself. The Trower MSS. contain rough copies of Trower's two published letters as well as drafts of a third and a fourth letter never published, together with Ricardo's critical memoranda upon the latter.[1] The two men seem to have been well acquainted prior to the controversy. But the revelation of authorship was doubtless a mutual surprise, and thereafter their relation took on both a wider range and a stronger quality that developed uninterruptedly until Ricardo's death in 1823.

To the text of the letters here reprinted have been appended a few necessary annotations, including brief summaries of the other contributions to the *Chronicle* discussion. The inviting task of correlating the letters with the 'High Price of Bullion' tract and with Ricardo's monetary theories in general, can properly be left to the student of the Ricardian economics for whose greater convenience this edition is primarily designed.

BALTIMORE, *December*, 1902.

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[1] Cf. "Letters of David Ricardo to Hutches Trower and others, 1811-1823" (ed. Bonar and Hollander. Oxford: 1899), vi-vii and Appendix.

# Three Letters

on

# The Price of Gold

Contributed to

*The Morning Chronicle* (London)

in

AUGUST–NOVEMBER, 1809

by

## David Ricardo

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BALTIMORE
THE JOHNS HOPKINS PRESS
1903

# I

[*The Morning Chronicle*, August 29, 1809]

## *THE PRICE OF GOLD.*

The present high market price above the mint price of gold, appears to have engrossed a great portion of the attention of the public; but they do not seem to be sufficiently impressed with the importance of the subject, nor of the disastrous consequences which may attend the further depreciation of paper. I am anxious, whilst there is yet time, that we should retrace our steps and restore the currency to that healthful state which so long existed in this country, and the departure from which is pregnant with present evil and future ruin.

The mint price of gold is 3l. 17s. 10½d. and the market price has been gradually increasing, and was within these two or three weeks as high as 4l. 13s. per ounce, not much less than 20 per cent. advance.

It is remarkable that between the years 1777 and 1797 the average price of gold was not higher than 3l. 17s. 7d. During that period, our currency was one of acknowledged purity. It is only since 1797, since the year that the Bank has been restricted from paying its notes in specie, that gold has risen to 4l., 4l. 10s., and latterly to 4l. 13s. per ounce. Whilst the Bank pays its notes in specie, there can never be any great difference between the mint and market-prices of gold. It is well known that, detection being difficult, notwithstanding the most severe, and, perhaps, absurd laws, when it becomes greatly the interest of individuals from a high market price of gold, the coin will be melted and sold as bullion, or exported, as it best suits the views of those who engage in such traffic. If, then, whilst the Bank paid in specie gold rose to 4l. or more per ounce, these dealers would exchange their notes at the

Bank, obtaining an ounce of gold for every 3l. 17s. 10½d. in bank notes. This gold would be melted and sold, or exported for 4l. or more in bank-notes per ounce; and as this operation might be repeated daily, or indeed hourly, it would be continued till the Bank had withdrawn the superfluous quantity of their notes from circulation, and had thereby brought the market and mint prices of gold to a level. This is the only check which can exist to an over issue from the Bank, and was so well known that the Bank never ventured on it with impunity.

No efforts of the Bank could keep more than a certain quantity of notes in circulation, and if that quantity was exceeded, its effects on the price of gold always brought the excess back to the Bank for specie. Under such regulations the market price of gold could never rise much above the mint price, for who would give 4l. or more, in bank-notes, for an ounce of gold, when he might obtain the same at the Bank for 3l. 17s. 10½d. It would be the same thing as offering an ounce of gold and 2s. 1½ d. for an ounce of gold.—When we talk of a high price of gold, it can have no meaning, if estimated in gold, or in notes which are immediately exchangeable for gold. It may be high, estimated in silver, or in goods of all kinds, and it is only when gold is high compared with goods, or in other words that goods are cheap, that any temptation is offered for its importation. When it is said that we may obtain 1l. 5s. for a guinea by sending it to Hamburg, what is meant but that we may get for it a bill on London for 1l. 5s. in bank-notes? Could this be the case if the bank paid in specie? Would any one be so blind to his interest as to offer me one guinea in specie and four shillings, for a guinea, when he might obtain the same at Hamburgh at par, paying only the expences of freight, &c.? It is only because he cannot get a guinea at the Bank for notes, that he consents to pay it with notes at the best price he can, or in other words he sells 1l. 5s. of his bank-notes for a guinea in specie.

When the Act restricting the Bank from paying in specie

took place, all checks to the over issue of notes were removed, excepting that which the Bank voluntarily placed on itself, knowing that if they were not guided by moderation, the effects which would follow would be so notoriously imputable to their monopoly, that the Legislature would be obliged to repeal the Restriction Act.

Whilst the Bank is willing to lend, borrowers will always exist, so that there can be no limit to their over-issues, but that which I have just mentioned, and gold might rise to 8l. or 10l. or any other sum per ounce.—The same effect would be produced in the price of provisions and on all other commodities, and there would be no other remedy for the depreciation of paper, than the Bank withdrawing the superabundant quantity from circulation, by insisting on the merchants paying their bills as they became due, and refusing to renew their loans until the scarcity of circulating medium should so raise its value that it would be at par with gold. It could rise but little above that price, for from that moment importation of gold would commence, and if the Bank were gradually to withdraw all their notes from circulation, the place of those notes would as gradually be supplied by imported gold, which the high price—I mean the high price in goods, would infallibly draw to this country.

If my view of this subject has been correct, we are enabled to ascertain the amount of depreciation at which Bank notes at any time may be, and when gold was at 4l. 13s. per ounce, they appear to have arrived at the enormous discount of 20 per Cent. I may be asked if Bank notes are at so great a discount, how comes it that no shopkeeper will sell more goods for twenty guineas than for 21l. in Bank notes. For this I can only account by supposing that the trade of purchasing guineas at a premium, or in other words selling Bank notes at a discount, is one which would expose the man who openly undertook it to so much obloquy and suspicion, that notwithstanding the profit, no one is hardy enough to encounter the risk, particularly as the law is very severe against melting the coin or exporting it. But that it is practised

secretly there can be no doubt, as the profit attending it is enormous, and the number of guineas in circulation, considering that nearly 60 millions have been coined in the present reign, is diminished to a very small amount.

It is sufficient for my argument if I prove that it is a trade which can advantageously be carried on—that if tradesmen could openly and readily sell guineas for twenty-three shillings each, or more in Bank notes, they could afford to sell their goods cheaper for gold than for Bank notes;—and it is sufficiently evident that buying guineas at twenty-three shillings is between 9 and 10 per cent. premium, and selling gold at 4l. 13s. or nearly 20 per cent. premium, is a trade much more advantageous than many carried on in the city of London.

If further proofs of the depreciation of Bank notes were wanting, and that it was caused by an over-issue, it would be found in the present rate of exchange with foreign countries. To make this apparent may require us to consider what is meant by the rate of exchange, and the rules and limits to which it is subject.

If I purchase from a resident in Holland goods of that country, the bargain is made in the money there current. I have consequently contracted to pay him a certain number of ounces of silver of a given purity. As the comparative value of silver and gold is nearly equal all over the world, my debt may be either estimated in silver or in the number of ounces of gold for which it would exchange. And if a merchant in Holland has purchased from a resident in London goods which are valued in English money, he has contracted to pay a certain number of ounces of gold of known purity or fineness.

To save the expence of the freight and insurance attending the exporting and importing of a quantity of gold to liquidate these debts, it suits the convenience of both the parties, after agreeing how much money of the one country is equivalent, considering its weight, purity, &c., to that of the other, and which is called the par of exchange, to make a transfer by means of a bill, which is done by my paying to

the English merchant the sum which I am indebted to my Correspondent in Holland, the English merchant ordering his Correspondent in Holland to pay to mine the same amount, estimated at the rate of exchange agreed on, in Dutch money. The advantage to both parties is saving freight and insurance. Now if two or more parties had been indebted to merchants in Holland, there would have been a competition between them for the purchase of this bill, and the seller would no longer have been satisfied with saving the freight and insurance on the importation of his gold, but would have exported, and would have obtained a premium for his bill, which it would have been the interest of either of the other parties to have given him, provided such premium did not exceed the expence of the transport of the metals. It is necessarily kept within that limit, for either would say, "the number of ounces of gold which I owe in Holland are ready to pay my debt. I am willing to give them to you to pay it for me, and to add to it the expences which would attend the sending it; but nothing can induce me to give more, as if you do not accept my offer, I shall suffer no further disadvantage by sending the gold!"—This is therefore the natural limit to the fall of the exchange, it can never fall more below par than these expences; nor can it ever rise more above par than the same amount.

But since the restriction on the Bank paying in specie, the fall of the exchange has kept pace with the rise in gold, and is now considerably lower than the limits which I have pointed out, and which may be accounted for in the following manner:—

A merchant can no longer say, that he is possessed of a sufficient number of ounces of gold to send abroad to pay his debt; he may say, indeed, that he has a sufficient number of bank notes, which if he could sell at par, or exchange at the Bank for what they profess to be, viz. an ounce of gold for every 3l. 17s. 10½d. he would have sufficient gold to pay his debt; but as things are, he must either sell his bank notes and be contented to obtain an ounce of gold, or 3l. 17s. 10½d. for

every 4l. 13s. of notes, or agree to make an allowance at that rate to the person with whom he negociates his bill. Thus then it appears, that the exchange may not only fall to the limits which I have before mentioned, but also in an inverse proportion to the rise of gold, or rather the discount of bank notes. But these are the limits within which it is even now confined. It cannot on the one hand rise more above par than the expence of freight, &c. on the importation of gold, nor on the other fall more than the expences of freight, &c. on its exportation, added to the discount on bank notes.

If bills of exchange were payable in gold and not in bank notes, the restriction on the Bank from paying in specie, could not in any way affect the exchange beyond the limits which I before specified.

What becomes then of the argument which has so often been urged in Parliament, that whilst the rate of exchange continued against us, it would not be safe for the Bank to pay in specie, when it is evident that their not paying in specie is the cause of the present low exchange.

Let the Bank be enjoined by Parliament gradually to withdraw to the amount of two or three millions of their notes from circulation, without obliging them, in the first instance, to pay in specie, and we should very soon find that the market price of gold would fall to its mint price of 3l. 17s. 10½d. that every commodity would experience a similar reduction; and that the exchange with foreign countries would be confined within the limits above mentioned.

It would then be evident that all the evils in our currency were owing to the over-issues of the Bank, to the dangerous power with which it was entrusted of diminishing at its will, the value of every monied man's property, and by enhancing the price of provisions, and every necessary of life, injuring the public annuitant, and all those persons whose incomes were fixed, and who were consequently not enabled to shift any part of the burden from their own shoulders.

## II [1]

[*The Morning Chronicle*, September 20, 1809]

To the EDITOR of the MORNING CHRONICLE.

*SIR,*

In the observations which I made on the high price of gold in the *Morning Chronicle* of the 29th ultimo, I expressed my apprehensions of the serious consequences which might attend the increasing depreciation of paper. By lessening the value of the property of so many persons, and that in any degree they pleased, it appeared to me that the Bank might involve many thousands in ruin. I wished, therefore, to call the attention of the public to the very dangerous power with which that body was entrusted; but I did not apprehend, any more than your Correspondent, under the signature of "A Friend to Bank Notes," that the issues of the Bank would involve us in the dangers of a national bankruptcy.

Allowing to this writer, that the demand for gold has increased, whilst the usual supplies have been withheld, I am not convinced by any arguments which he has advanced, that the market price of gold could have been thereby affected, unless the medium in which the price was estimated was depreciated. That the scarcity of gold should increase its value cannot be doubted; that it would in consequence, when exchanged for other commodities, command an increased quantity of them, is as certain; but no scarcity, however great, can raise the market price much above the mint price, unless it be measured by a depreciated currency.

A pound of gold is coined into forty-four guineas and a half, or 46l. 14s. 6d. This is, therefore, the mint price, and cannot be called, as your Correspondent calls it, an arbitrary value. It is the simple declaration of a fact, that forty-four guineas and a half are of the same weight as a pound of gold, and one-twelfth of that quantity or 3l. 17s. 10½d. of an ounce.

Experience has proved to us, and particularly that of the twenty years preceding 1797, during the vicissitudes of war

and peace, of favorable and unfavorable trade, that 46l. 14s. 6d. or a mint pound, would purchase sometimes a little more, and sometimes a little less than a pound of uncoined gold; and whilst an equal amount of bank notes would do the same, they would not be said to be depreciated. This they always did previous to the restriction on the Bank paying in specie, and for some time after it. Will this writer explain to us why any demand, however great, should induce any one to give, as has been lately done, 55l. 16s. in bank notes, for a pound of gold, if they are of equal value with 55l. 16s. in coin? Does he reflect that the gold actually contained in 55l. 16s. weighs one pound and a fifth of a pound? Is it seriously believed that he would give this for a pound? If it is agreed that he would not, then is the fact of the depreciation of bank notes fully established. If for the purchase of gold a greater quantity of corn, hardware, or any other commodity, were given than usual, it might justly be said that the scarcity of gold had increased in value. But what is the fact? If I go to market with corn or hardware, I can purchase 55l. 16s. in bank notes with precisely the same quantity that I am obliged to give to procure a pound of gold, or 46l. 14s. 6d.

I do not dispute with this writer but that it may be advantageous to a foreigner to send his goods to London, and after selling them for 25s. give that sum for the purchase of a guinea. He may possibly be doing it now with profit to himself. But he would not give twenty-five shillings for a guinea, if he did not pay for it in a depreciated medium. Again, I ask, does he think it possible that he would give a guinea and four shillings for a guinea, or bank notes to that amount, if they were exchangeable for that sum?

From the observations of this writer we should be led to suppose, that gold being at a higher price on the Continent than it is here, we might obtain there for it 4l. 15s. or more per ounce; but we should be mistaken in forming such a conclusion. It is paid for there in a medium not depreciated, and is probably somewhere about 4l. per ounce. But a purchaser here at 4l. 10s. can afford to sell it there at that price; because by means of the low exchange, (caused by the depre-

ciation), he can reimburse himself for the depreciation of 15 or 20 per cent. to which our currency has arrived.

It is contended, too, that all the effects on the Exchange, "which I attribute to the issue of bank notes, would equally be felt if there were not a single bank note in circulation."

If our circulation were wholly carried on by specie, I believe it would be difficult for this writer to convince us, that the exchange might be 20 per cent. against us. What could induce any person owing 100l. in Hamburgh, to buy a bill here for that sum, giving 120l. for it, when the charges attending the exportation of the 100l. to pay his debt could not exceed 4l. or 5l.?

The severity of the law against the exportation of gold coin, prevents *any* one from openly selling bank-notes at a discount, not from any delicacy, as your correspondent supposes me to say, against doing an immoral or an unlawful act, but from the fear that as it is known that no one can purchase guineas but with a view to exportation, he would become an object of suspicion,—he would be watched and unable to effect his purpose. Repeal the law, and what can prevent an ounce of standard gold in guineas from selling at as good a price as an ounce of Portugal coin, when it is known to be rather superior to it in purity? And if an ounce of standard gold, in guineas, would sell in the market (as Portugal coin has lately done) at 4l. 13s. per oz. how long would a shopkeeper sell his goods at the same price either for gold or bank-notes indifferently? The penalties of the law, therefore, have degraded the few guineas in circulation to the value of the bank-notes, but send them abroad and they will purchase exactly what an equal quantity of Portugal coin will.

This is the temptation to their exportation, and operates the same as a demand from abroad. Our currency is already superfluous, and it is worse than useless to retain the guineas here. But diminish the currency by calling in the excess of bank-notes:—Make a partial void, as your correspondent justly observes was done in France and other countries, from the annihilation of their paper-credit, and what can prevent the effectual demand which would thereby be immediately

created, from producing an importation of gold, and consequently a favorable exchange?

If our circulating medium has been augmented a fifth, till that fifth be withdrawn the prices of gold and commodities will remain as they are. Increase the quantity of notes, they will rise still higher; but withdraw the fifth, as I earnestly recommend, and gold and every other commodity will find its just level, and whilst the Bank continues to possess the confidence of the public, the representative of an ounce of gold, or 3l. 17s. 10½d. in bank-notes will always purchase an ounce of gold.

The hint thrown out of altering the mint price to the market price of gold, or, in other words, declaring that 3l. 17s. 10½d. in coin, shall pass for 4l. 13s. besides its shocking injustice would only aggravate the evil of which I complain. This violent remedy would raise the market price of gold 20 per cent. above the new mint price, and would further lower the value of bank-notes in the same proportion.

It has been shewn incontrovertibly by that able Writer, Dr. Adam Smith,* that the rate of interest for money is regulated by the rate of profits on that part of capital only which does not consist of circulating medium, and that those profits are not regulated but are wholly independent of the greater or lesser quantity of money which may be employed for the purposes of circulation; that the increase of circulating medium will increase the prices of all commodities, but will not lower the rate of interest.

We must not, therefore, depend upon the criterion, namely, the rate of interest so strongly recommended by your correspondent, by which to judge of the issues of the Bank; because, if Dr. Smith's reasoning be correct, if our circulating medium were ten times as great as it is, the rate of interest would not be permanently affected.

I think, Sir, I have succeeded in proving that my alarms are not altogether groundless, and that there does exist a great depreciation in our currency, affecting the interests of the public annuitant, and of those whose property consists in money, without any corresponding advantages. The evils

attending a variable medium, as it affects all contracts, are too obvious to require to be noticed. The permanency of the value of the precious metals first recommended them as the general medium of exchange. That advantage is now lost to us, and we cannot consider our currency on a solid foundation till it be restored to the value of that of other countries.

By withdrawing a certain quantity of Bank of England notes from circulation it is supposed, by Mr. Cobbett, that their place would be immediately supplied by country bank-notes.[4] No such effect would, in my opinion, take place; on the contrary, I think such a measure would oblige the country-banks to call in at least as many, if not considerably more, of *their* notes.

A Bank of England note and a country bank note are now of equal value, and their quantities are proportioned to the business which they have to perform. By withdrawing Bank of England notes from circulation you increase their value and lower the prices of commodities in those places where they are current. A Bank of England note will then be more valuable than a country bank-note, because it will be wanted to purchase in the cheaper market; and as the country bank is obliged to give Bank of England notes in exchange for their own, they would be called upon for them till the quantity of country paper should be reduced to the same proportion which it before bore to the London paper, producing a corresponding fall of the prices of all commodities for which it was exchangeable.

A writer in *The Pilot* newspaper has been pleased to suppose, that a gentleman who has written in your paper under the signature of "Mercator," has done so "in aid or in imitation of, or in conjunction and conspiracy with me." The fact can of itself be of little importance. If his arguments or mine or weak, let him shew them to be so; but "No Trafficker" is mistaken.—The sentiments of "Mercator" are only known to me as they are to him, through the medium of *The Morning Chronicle*.[5] I am Sir, &c.

R.

## III[6]

[*The Morning Chronicle*, November 23, 1809]

To the EDITOR of the MORNING CHRONICLE.

*SIR,*

Had your Correspondent, "A Friend to Bank-notes," when he first did me the honour to notice my observations on the high price of Gold, contended, as he now does, that Bank-notes were the representatives of Silver, but not of Gold Coin, we should sooner have discovered from whence the difference of our opinions on the subject in dispute between us arose. I should then, Sir, have spared him the trouble of giving so many proofs of that which is indisputable, namely—*that if Silver be the sole measure of value, Gold being at 4l. 13s. per oz. is not, of itself, evidence of Bank notes being at a discount.* Indeed, I thought that in the following observations I had admitted that position [7]—"When we talk of a high price of Gold, it can have no meaning if estimated in Gold, or in Notes which are immediately exchangeable for Gold. It might be high estimated in Silver, or in goods of all kinds." It was evident from the tenor of that and the subsequent paper, that I considered Gold Coin as the standard of commerce, and by it estimated the depreciation of Bank-notes. I had no reason to suppose that it was otherwise considered by your Correspondent. In one place he called Bank-notes a "substitute for Gold;" in another he observes, that "Had not this restriction been imposed, the great and growing demand for Gold upon the Continent would have drawn every Guinea out of the Country, and would have left us without resource in any emergency which might arise, by which its credit would be shaken." The restriction could only have enabled the Directors of the Bank, if they had been so disposed, to prevent the Guineas locked up in the Bank from being exported. Those in circulation have been as liable to be sent out by the Country since, as before that measure. But, if Silver only be the standard of currency, as is now asserted,

the Bank might have paid their Notes in our present debased Silver Coin; in Shillings, for example, debased 24 per cent. below their standard weight and value, the Guinea, therefore, would not have needed that protection. The Silver would not have been demanded, because it could not have been either melted or exported, but at a loss of 24 per cent. If Silver be the standard of currency, Bank-notes were, in 1797, at a premium of 24 per cent. and are now at a premium of 14 per cent.

But if, as I shall attempt to prove, Gold be the standard of value, and consequently, Bank Notes the representatives of the Gold-coin, I do expect that this writer will agree with me that Bank Notes are at a discount, and that the excess of the market above the mint price of Gold measures the depreciation.

The price of standard Silver bullion was on Tuesday last 5s. 9½d. per oz. On the same day, the price of standard Gold bullion was 4l. 10s. per oz. An ounce of Gold was therefore equal to about 15½ oz. and not 18 oz. of Silver.

If, then, we estimate the value of Bank Notes by the price of Gold bullion, they will be found to be 15½ per cent. discount. If by the price of Silver bullion 12 per cent. discount. But your Correspondent would no doubt observe, that this conclusion from the price of Silver bullion would be correct, if our Silver currency were not degraded by wearing and clipping, but as it was known to be depreciated by being deficient in standard weight, the high price of Gold bullion might in a great measure, and that of Silver bullion wholly, be caused by that deficiency. Bank Notes are, according to this argument, the representatives, not of our standard Silver currency, but of our debased Silver Coins.

It is observed by Lord Liverpool, in his letter to the King on the state of the coins,[*] that the law now is, and has been since the year 1774, "That no tender in payment of money made in the Silver Coin of this realm, of any sum exceeding the sum of 25l. at any time, shall be reputed in law or allowed to be legal tender, within Great Britain or Ireland,

for more than according to its value by weight, after the rate of 5s. 2d. for each ounce of silver."

Bank-notes are not then the representatives of the debased silver coins. A holder of a Bank-note of 1000l. might refuse to take more than 25l. in the present debased Silver currency. If the remaining 975 l. were paid him in shillings, he would receive them by weight, at their Mint value of 5s. 2d. per oz. which, with the 25l. of debased Silver, when sold at the present price of 5s. 9½d. per oz. would yield 1110l. in Bank-notes. Here then it is proved, on this writer's own principles, that if Silver be the standard currency, Bank-notes are at a discount of 11 per cent.

For the following reasons given by Lord Liverpool, in the work before mentioned, I consider Gold as the standard measure of value. He observes,[9] "that the Silver Coins are no longer the principal measure of property: all commodities now take their price or value in reference to the Gold Coin, in like manner as they took their value in a former period in reference to the Silver Coins. On this account the present deficiency of the Silver Coins, great as it is, is not taken into consideration, in paying the price of any commodity, to the extent in which they are legal tenders. It is clear, therefore, that the Gold Coins are now become, in the practice and opinion of the people, the principal measure of property."

He then states,[10] that in the reign of William the Third, the Guinea was current at even so high a value as 30s.; that the Gold Coins rose or fell as the Silver Coins were more or less perfect. "No such increase or variation in the value of Gold Coin has taken place since the year 1717, when the rate or value of the Guinea was determined by proclamation, and the Mint indenture, to be 21s. and the other Gold Coins in proportion; though the Silver Coins now current have long been, and are still, at least as deficient as they were at the beginning of the reign of King William. The Guinea and other Gold Coins have, notwithstanding, constantly passed since 1717, at the rate or value given them by the Mint indentures."

"The two foregoing reasons clearly prove the opinion of the people of Great Britain on this subject, in their interior commerce and domestic concerns. I will in the next place shew what has been the opinion of foreign nations concerning it." In the reign of King William the exchanges rose or fell according to the perfection or defect of our silver coins. Before the recoinage in 1695, the exchanges with all foreign countries were 4s. in the pound against England, and with some of them considerably more. "The same evil, however, has never existed since the year 1717, though our silver coins have, during all this interval, been very defective. But, on the other hand, our exchanges with foreign countries were very much influenced to our disadvantage, when our gold coins were defective, that is, previous to the reformation of our Gold Coins in the year 1774." Lord Liverpool considers this as a proof that foreigners consider our Gold Coins as the principal measure of property. Another argument is drawn from the prices of gold and silver bullion. When our Gold Coin was defective previous to the re-coinage in 1774, gold bullion advanced considerably above its mint value, but immediately on its being brought to its present state of perfection, gold bullion fell to something under the mint price, and has continued so for twenty years previous to 1797. "It is evident, therefore, from these facts, that the price of gold bullion was affected by the state of our gold coins, though the price of this bullion had not since the year 1717, been so affected by the defective state or condition of our silver coins." The price of silver bullion has, since the year 1717, been affected by the perfection or defect of our Gold Coins, but has not been so by the defective state of our Silver Coins.—"From all which it is evident, that the value of Gold or Silver Bullion has, for 40 years at least, been estimated according to the state of our Gold Coin solely, and not according to that of Silver Coin. The price of both these metals rose when our Gold Coin was defective; it fell when our Gold Coin was brought to its present state of perfection; and it may, therefore, justly be inferred, that, in the opinion of the dealers in

the precious metals (who may be considered as the best judges on a subject of this nature), the gold coin has in this respect become the principal measure of property, and consequently the instrument of commerce." In another passage, Lord Liverpool considers a pound sterling to be 20-21 of a guinea.[11] The same opinion is advanced by Sir J. Stewart[12]—"At present (says he) there are no sterling pounds in silver money; there is no silver in England in any proportion to the circulation of trade; and, therefore, the only currency by which a pound can be valued is the guinea."

The Bank-Directors must have been of the same opinion, when they stated in their evidence before Parliament, that it was their usual practice to limit the amount of their notes when the market price of gold exceeded the mint price.[13]

In the Report of the Committee of the House of Lords in 1797, it is observed, that "Gold is the mercantile coin of Great Britain, and silver has for many years been only a commodity, which has no fixed price, and is very rarely carried to the Mint to be coined, but varies according to the demand for it at the market."[14]

I am, Sir, your obedient Servant,

R.

Nov. 4

# NOTES

[1](page 4) "INTRODUCTION.—The writer of the following pages has already submitted some reflections to the attention of the public, on the subject of paper-currency, through the medium of the Morning Chronicle. He has thought proper to republish his sentiments on this question in a form more calculated to bring it to fair discussion; and his reasons for so doing, are, that he has seen, with the greatest alarm, the progressive depreciation of the paper-currency. His fears have been augmented by observing, that by a great part of the public this depreciation is altogether denied, and that by others, who admit the fact, it is imputed to any cause but to that which to him appears the real one. Before any remedy can be successfully applied to an evil of such magnitude, it is essential that there should be no doubt as to its cause. The writer proposes, from the admitted principles of political economy, to advance reasons, which, in his opinion, prove, that the paper currency of this country has long been, and now is, at a considerable discount, proceeding from a superabundance in its quantity, and not from any want of confidence in the Bank of England, or from any doubts of their ability to fulfil their engagements. He does this without reluctance, being fully persuaded that the country is yet in possession of the means of restoring the paper currency to its professed value, viz. the value of the coins, for the payment of which it purports to be a pledge.

He is aware that he can add but little to the arguments which have been so ably urged by Lord King, and which ought long before this to have carried conviction to every mind; but he trusts, that as the evil has become more glaring, the public will not continue to view, without interest, a subject which yields to no other in importance, and in which the general welfare is so materially concerned.

*Dec. 1, 1809.*"

See "The High Price of Bullion, a Proof of the Depreciation of Bank Notes" (Second edition, corrected. London: 1810), iii, iv.

[2](page 15) Ricardo's first communication (August 29) was followed by a letter from "Mercator," dated September 4 and published in *The Morning Chronicle* of September 7, in which Ricardo's views were warmly and somewhat sophomorically defended. As remedial measures, the partial resumption of specie payments and the limitation of the Bank's note-issuing power were urged. In *The Pilot*, also a London newspaper, of September 7, "F." explained the high price of gold as due to extraordinary demand. In the same paper of September 8, "Mercator" charged that the high price of gold was due to the extensive purchase of guineas for export, in which illicit traffic "Mercator" was doubtless a participant! "Mercator" replied to these two critics with some vigor in the *Chronicle* of September 12, and dwelt upon the injury done the "public annuitant or person of fixed stipend" by the rise in prices. "No Trafficker"

retorted in *The Pilot* of September 13 in a rambling, unpleasant letter which added nothing to his first statement.

A more important contribution appeared in the *Chronicle* of September 14, over the signature "A Friend to Bank Notes but no Bank Director"—from the pen, as we now know, of Hutches Trower. Trower protested against the alarmist note which he found in Ricardo's communication. He ascribed the high price of gold to increased demand, consequent upon the collapse of the French assignats and to diminished supply, resultant from interrupted trade with America. The Bank's issues, instead of heightening the price of bullion, had actually checked it by serving to that extent as a substitute for gold. Ricardo's brief explanation of the failure of guineas to command more goods in ordinary purchases than bank notes was sharply criticised. The possibility was considered of reducing the standard price of gold to a price nearer its market price so as to prevent an otherwise inevitable efflux of gold whenever specie payment should be resumed. Finally, it was asserted that the rate of interest was to be regarded as the real index of the redundancy or otherwise of the money supply.

This communication was the immediate occasion of Ricardo's *Chronicle* letter of September 20. Cf. "Letters of David Ricardo to Hutches Trower and others, 1811-1823" (ed. Bonar and Hollander. Oxford: 1899), vi-vii.

[3](page 18) "Wealth of Nations," bk. II, ch. iv; in Thorold Rogers' edition, vol. I, pp. 357-359.

[4](page 19) Cf. Cobbett's *Political Register* of September 16, 1809. In a paper on "Jacobin Guineas," Cobbett refers to "The philosopher who writes in the Chronicle," and asks, "Besides does this writer imagine, that the country-bankers would not make money to supply the place of any reduction at the Bank of England?"

[5](page 19) The opening phrase of the letter of "No Trafficker," published in *The Pilot* of September 13 is, "A gentleman who has written in *The Morning Chronicle* under the signature of MERCATOR, in aid or imitation of, or in conjunction or conspiracy with another writer in the same paper upon the subject of the present high price of gold," etc. Cf. note 2, above.

[6](page 21) The publication of Ricardo's second contribution stimulated further controversy in the columns of the *Chronicle*. On September 23 "A Lover of Cash" invited an expression of opinion from "A Friend to Bank Notes" (Hutches Trower) as to whether general prices had risen proportionately with the increased note circulation. In the same issue "T." praised the "clear and convincing statement from your intelligent correspondent R.," described the attempt to account for the high price of gold by any other cause than the depreciation of paper as "downright nonsense and infatuation," and agreed with Ricardo, as against Cobbett, that the increased issues of the country banks resulted from the conduct of the Bank of England. On September 26, "A. Z." denied that notes were at a discount, emphasized